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7 August 1985

MEMORANDUM FOR: See Distribution

FROM:

Chief, Legislation Division
Office of Legislative Liaison

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SUBJECT: Office of Management and Budget (OMB) Request
for Agency Comments on S. 1527, Civil Service
Pension Reform Act of 1985

1. Attached for your review and comment at Tab A is S. 1527, the "Civil Service Pension Reform Act of 1985". This bill was recently introduced by Senator Stevens and sets forth a proposed retirement program for those federal employees who began service after 31 December 1983. In order to prepare for hearings scheduled for early September on this bill, OMB has requested the Agency's views on this proposed legislation.

2. You will recall that the 1983 Social Security Act amendments brought federal employees hired after 31 December 1983 under the Social Security system, thus necessitating the development of a new supplemental retirement program for these individuals. Senator Stevens' attached bill contains a proposed retirement program for these individuals, as well as for pre-1983 employees participating in the Civil Service Retirement System who opt to join this new plan. This plan consists of three tiers. Social Security comprises the first tier, as all individuals participating in the plan will contribute to and be covered by Social Security. The second tier is a defined benefit plan in which one percent (1%) of an employee's high five years of salary is multiplied by the employee's years of service. The third tier is an optional thrift plan in which an individual can contribute up to ten percent (10%) of his salary into an IRA-like account with corresponding tax benefits.

3. To receive an unreduced annuity under S. 1527, an employee must be 62 years of age with five years of service. Individuals retiring before age 62 under the plan will receive a reduced annuity. For individuals retiring voluntarily at age 55 with 30 years of service, this reduction is two percent (2%) for each year the participant is under age 62. For an employee retiring at age 55 with less than 30 years of service, a reduction of five percent

(5%) for each year under age 62 is applied. The plan does provide for an annuity without reduction for certain special retirement classes (law enforcement officers, fire fighters or air traffic controllers) retiring before age 62, provided they have completed 25 years of service in their occupation. While these special retirement class individuals will be eligible to retire at any age, retirement benefits drawn before age 55 will be reduced by five percent (5%) a year under age 55.

4. With respect to the funding for the defined benefit plan, the full cost of the plan is to be borne by the Government with employees making no contributions to the plan. Section 8418 of the bill provides that each federal agency shall contribute an amount equal to the normal cost of the benefits for the agency's employees as determined by OPM, which contribution shall be paid from the appropriations or funds available to such agencies to pay the basic pay or other salaries of participants. Any portion of the plan determined to be under-funded will trigger amortized payments from the U.S. Treasury over a 30-year period.

5. With respect to the optional thrift plan, section 8421 permits individuals to invest up to ten percent (10%) of their basic pay in the thrift plan. Employing agencies are required to match the participants' payment up to five percent (5%) of the participants' basic pay. Depending upon the amount of risk an individual wishes to incur, these funds may be invested in either a government securities investment fund, a guaranteed investment fund, or a common stock investment fund. To assist career planning and maximum flexibility, employees are permitted to roll over this thrift investment into an IRA upon their separation from Government. This feature, when combined with the portability of Social Security, is intended to increase "the options of each Federal employee" and to "enhance portability of retirement assets between federal jobs and jobs outside the Federal Government".

6. Senator Stevens' attached plan also addresses disability and survivor benefits, the transition between this new program and the current Civil Service Retirement System, and the establishment of a new Civil Service Thrift Investment Board to administer the optional thrift plan. To assist in your review of S. 1527, a sectional analysis of the bill is attached at Tab B for your review.

7. One other final item of note is the absence of an explicit integration of the defined benefit plan with Social Security under Senator Stevens' program. Because Social Security redistributes income to lower wage earners, most private pension plans redistribute the pension benefit in the other direction to compensate for this Social Security tilt. Senator Stevens' bill does not provide for this same redistribution, but instead preserves this Social Security tilt in favor of lower income wage earners.

8. I would appreciate receiving your comments on the attached bill by Wednesday 14 August 1985.



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Attachments:

Tab A - S. 1527

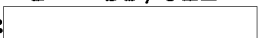
Tab B - Sectional Analysis of S. 1527

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